LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6775 **DATE PREPARED:** Jan 2, 2002
BILL NUMBER: SB 320 **BILL AMENDED:**

SUBJECT: Research Expense Tax Credit.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill removes current limitations on the Research Expense Tax Credit for a taxpayer who has income apportioned to the state for a taxable year. The bill also removes the expiration date for the credit.

Effective Date: July 1, 2002; January 1, 2003.

Explanation of State Expenditures: The Department of State Revenue will have some administrative expenses to change tax forms, instructions, and computer programs.

Explanation of State Revenues: This bill eliminates the apportionment factor for the Research Expense Credit beginning January 1, 2003, and removes the expiration date for the credit. It is estimated that eliminating the apportionment factor will result in an additional revenue loss ranging from $5 M to $10 M over current levels of the credit.

It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability. However, over the past four years, the current Research Expense Credit has ranged from $9.2 M in FY 1996 to $24.2 M in FY 1999. The revenue loss is expected to continue to be within the range of $10 M to $24 M annually.

Apportionment Provision: This modification would mean that the credit is based on the taxpayer's Indiana qualified research expenses, rather than the lesser of its Indiana qualified research expenses or its apportioned research expenses for the tax year beginning January 1, 2003. Currently, only businesses that do not have income apportioned to the state for a taxable year may calculate their credit based on only Indiana research expenses.

This change would lower the tax liability for multi-state, Indiana-domiciled companies that conduct a significant proportion of their research in Indiana, compared to the research conducted through their non-Indiana operations. Elimination of the apportionment factor will allow all companies to compute their tax credit based on the amount of research actually conducted in the state. It is unknown how many Indiana businesses would be affected by this change.

Elimination of Expiration Date: This bill also eliminates the December 31, 2002, expiration date for this credit and effectively makes this a permanent credit available to taxpayers.

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides $50,000 for each $1 M in new research expenses. Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

The Research Expense Tax Credit affects revenue collections deposited in the General Fund and Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue.